



Orangerooft Canada Ltd.

Annual Report 1975

CORPORATE DIRECTORY

DIRECTORS

John J. Courtemanche
 Harold E. Crate, F.C.A.
 Joseph P. Crothers
 George W. Crothers
 James F. Crothers
 Frank J. Crothers
 Harold J. Murphy, Q.C.

OFFICERS

John J. Courtemanche, Chairman of the Board,
 President and Chief Executive Officer
 Harold J. Murphy, Q.C., Secretary
 Frank J. Crothers, Vice-President
 James G. Musgrave, C.A., Treasurer

AUDITORS

Thorne Riddell & Co.

TRANSFER AGENT AND REGISTRAR

United Trust Company, Toronto

GROWTH OF HOWARD JOHNSON'S HOTELS AND RESTAURANTS

1976 1975 1974 1973 1972 1971 1970
 (proj.)

Motor Lodge Restaurant Combinations							
Toronto Airport (416) 677-6100	•	•	•	•	•	•	
Toronto East (416) 439-6200	•	•	•	•			
London (519) 681-0600	•	•	•	•	•	•	
St. Catharines (416) 934-5400	•	•	•	•			
Orillia* (705) 326-7343	•	•	•				
Moncton* (506) 854-1050	•	•	•	•	•	•	
Montreal* (514) 288-5555	•						
Restaurants							
Toronto, Keele Street*	•	•	•	•	•	•	
Toronto, 291 Yonge Street	•	•	•	•	•	•	
Toronto, 1507 Yonge St.	•	•	•	•	•	•	
Barrie*	•	•	•				
Brockville*	•	•	•				
Montreal, 710 St. Catherine St. W.*	•	•	•	•	•	•	•
Montreal, 1236 St. Catherine St. W.*	•	•	•	•	•		
Montreal, 1232 Peel Street*	•	•	•				
Montreal, 6501 St. Hubert St.*	•	•					
Montreal, 862 St. Catherine St. E.*	•						
Quebec City*	•	•	•	•			
St. Germain*	•	•					
Ste. Adele*	•						
Red Coaches							
Toronto Airport, 801 Dixon Rd.	•	•	•	•	•	•	
Montreal, 425 Sherbrooke St. E.	•						

*Operated by Licensees

Orangerooof Canada Limited

OPERATING INCOME SUMMARY

(\$000)

BY TYPE	1975	1974	1973	1972	1971	1970
Hotels	826	826	762	391	(30)	—
Restaurants at Hotels	307	299	250	231	61	—
Restaurants — Freestands	(149)	(69)	213	71	53	—
Licences and Royalties — Net	185	140	94	113	47	42
Total Operating Income	<u>1,169</u>	<u>1,196</u>	<u>1,319</u>	<u>806</u>	<u>131</u>	<u>42</u>
Corporate Expenses	734	626	806	739	610	266
Interest on Long Term Debt — Net	709	646	709	647	—	—
Amortization and write-off of Deferred Expenses	501	163	134	126	47	—
Loss for the Year	<u>775</u>	<u>239</u>	<u>330</u>	<u>706</u>	<u>526</u>	<u>224</u>
Operating Cash Flow	<u>329</u>	<u>356</u>	<u>180</u>	<u>(240)</u>	<u>(339)</u>	<u>(240)</u>

PRESIDENT'S REPORT

TO OUR SHAREHOLDERS

1975 was a difficult year in the Food and Lodging business as the economic conditions which persisted throughout Canada, sharply curtailed the growth in occupancy and revenue to which the industry had become accustomed.

We believe that current rates of industrial activity and levels of consumer spending will improve in the latter half of 1976 which should have a positive effect on our operations.

During 1975, new licensee restaurants have been opened in Montreal on St. Hubert Street and at St. Germain on the Trans Canada Highway between Montreal and Quebec City.

Subsequent to our year end, a new restaurant opened at 862 St. Catherine Street East in Montreal and a new restaurant in a magnificent location at Ste. Adele in the Laurentians will be open by mid-year.

The new, 300-room Howard Johnson's Hotel, at

Sherbrooke and Berri Streets in Montreal is planned to be opened in June with a Howard Johnson's Restaurant and a Red Coach Restaurant to complement the amenities in time for Canada's Olympic Games.

During the year, operation of the Keele Street restaurant was transferred to a new licensee and subsequent to the year end, similar arrangements were made for both the Barrie and Brockville locations.

We terminated the Stoney Creek operation and the site was sold.

The continuing over-supply of hotel accommodations in major urban markets, including London and Toronto, has led to extremely competitive marketing conditions. This situation has adversely affected our operating results and will likely continue to do so well into 1976.

On behalf of myself and the Board of Directors, I want to sincerely thank the officers and employees of Orangerooof for their support and dedication during the past year.

John J. Courtemanche,
Chairman of the Board and President

CONSOLIDATED BALANCE

ASSETS

	<u>1975</u>	<u>1974</u>
CURRENT ASSETS		
Cash and bank deposit receipts.	\$ 143,000	
Accounts receivable.	350,000	\$ 381,000
Current portion of mortgages receivable.	14,000	210,000
Inventories.	299,000	319,000
Deposits and prepaid expenses.	42,000	40,000
	<u>848,000</u>	<u>950,000</u>
 MORTGAGES RECEIVABLE (notes 2 and 3)	 <u>971,000</u>	 <u>1,156,000</u>
 FUNDS HELD IN ESCROW (note 3)	 <u>200,000</u>	
 FIXED ASSETS (note 4)		
Buildings, equipment and leasehold improvements, at cost	10,342,000	10,514,000
Less accumulated depreciation.	1,558,000	1,165,000
	<u>8,784,000</u>	<u>9,349,000</u>
 OTHER ASSETS , at cost less amortization		
Licences (note 5).	282,000	303,000
Deferred expenses (note 6)		501,000
	<u>282,000</u>	<u>804,000</u>
	<u>\$11,085,000</u>	<u>\$12,259,000</u>

Approved by the Board

J. J. Courtemanche, Director

H. J. Murphy, O.C., Director

Canada Limited

the laws of Canada)
companies

SHEET AS AT DECEMBER 28, 1975

LIABILITIES

	<u>1975</u>	<u>1974</u>
CURRENT LIABILITIES		
Bank advances (note 7)	\$ 40,000	\$ 1,145,000
Accounts payable and accrued liabilities	1,083,000	822,000
Holdbacks payable on construction contracts		17,000
Deferred advertising revenue		27,000
Principal due within one year on long-term liabilities	<u>489,000</u>	<u>174,000</u>
	<u>1,612,000</u>	<u>2,185,000</u>

LONG-TERM LIABILITIES (note 8)	<u>8,086,000</u>	<u>7,912,000</u>
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SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 9)

Authorized

1,400,000 Class A common shares without par value

3,500,000 Class B common shares without par value

Issued

1,400,000 Class A common shares)

800,000 Class B common shares) 4,570,000 4,570,000

DEFICIT	<u>3,183,000</u>	<u>2,408,000</u>
	<u>1,387,000</u>	<u>2,162,000</u>
	<u>\$11,085,000</u>	<u>\$12,259,000</u>

Long-term leases (note 10)

Orangerooft Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME

YEAR ENDED DECEMBER 28, 1975

	<u>1975</u>	<u>1974</u>
Revenue		
Sales	\$11,460,000	\$10,759,000
Royalties and Licence Fees	<u>293,000</u>	<u>220,000</u>
	<u>11,753,000</u>	<u>10,979,000</u>
Costs and expenses before the undernoted	10,332,000	9,622,000
Interest on long-term liabilities of \$813,000 (1974—\$772,000) net of interest earned from certain mortgages receivable of \$104,000 (1974—\$126,000)	<u>709,000</u>	<u>646,000</u>
Royalties and licence fees	<u>383,000</u>	<u>355,000</u>
	<u>11,424,000</u>	<u>10,623,000</u>
Income before the undernoted	<u>329,000</u>	<u>356,000</u>
Depreciation	453,000	412,000
Amortization of deferred expenses		163,000
Write-off of deferred expenses (note 6)	501,000	
Amortization of licences	21,000	20,000
Loss on disposal of fixed assets (note 4)	<u>129,000</u>	<u></u>
	<u>1,104,000</u>	<u>595,000</u>
Loss for the year	<u>\$ 775,000</u>	<u>\$ 239,000</u>
Loss per class A and B common share	<u>35¢</u>	<u>11¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

YEAR ENDED DECEMBER 28, 1975

	<u>1975</u>	<u>1974</u>
Deficit at beginning of year	\$ 2,408,000	\$ 2,169,000
Loss for the year	<u>775,000</u>	<u>239,000</u>
Deficit at end of year	<u>\$ 3,183,000</u>	<u>\$ 2,408,000</u>

Orangerooof Canada Limited

and subsidiary companies

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 28, 1975

	<u>1975</u>	<u>1974</u>
Working capital derived from		
Operations		
Loss for the year	\$ (775,000)	\$ (239,000)
Items not involving working capital		
Depreciation.	453,000	412,000
Amortization of deferred expenses		163,000
Write-off of deferred expenses	501,000	
Amortization of licences.	21,000	20,000
Loss on disposal of fixed assets	129,000	
	<u>329,000</u>	<u>356,000</u>
Long-term debt assumed.	667,000	500,000
Proceeds from sale of fixed assets	86,000	
Reduction in licence costs as a result of forgiveness		
of long-term debt related thereto		103,000
Decrease in non-current portion of mortgages receivable	211,000	213,000
	<u>1,293,000</u>	<u>1,172,000</u>
Working capital applied to		
Mortgages receivable	26,000	
Additions to fixed assets.	103,000	484,000
Funds held in escrow	200,000	
Deferred expenses		57,000
Reduction in non-current portion of long-term liabilities,		
including in 1974, \$103,000 attributable to ice		
cream licence debt forgiveness	493,000	280,000
	<u>822,000</u>	<u>821,000</u>
Increase in working capital position	471,000	351,000
Working capital deficiency at beginning of year, as restated (note 3)	<u>1,235,000</u>	<u>1,586,000</u>
Working capital deficiency at end of year.	<u>\$ 764,000</u>	<u>\$ 1,235,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 28, 1975

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of Consolidation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiary companies, O.R. Restaurants Limited and Orange Roof Enterprises Limited.

(b) Inventories

Inventories are valued at the lower of cost and net realizable value.

(c) Fixed Assets

Fixed assets are recorded in the accounts at cost. Included in furniture and equipment are costs of \$437,000 incurred by the company but held under a capitalized lease agreement expiring in April, 1979. Depreciation charged to operations is based on the following:

Buildings	5% Sinking fund basis over a 40 year period
Furniture and equipment	10% Straight line
Vehicles.	30% Straight line
Leasehold improvements.	Straight line over the term of the lease plus the first renewal option
Cutlery, china, linens, etc.	The company capitalizes a base stock at each location and expenses subsequent replacements.

(d) Licences

The costs of the master licence and the ice cream manufacturing licence are being amortized to income on a straight line basis over the term of the respective licences, each of which expire on December 31, 1989.

(e) Revenue and Expense

It is the company's policy to recognize sub-licence fees as revenue in the accounting period when a sub-licence agreement is signed and the fee has been received in cash. From the date of the sub- licensee beginning operation the company receives continuing royalties and fees based on the sub- licensee's gross revenues. Both the master licence and the ice cream manufacturing licence provide for percentage royalties payable by the company from its own operations. The master licence agreement has a minimum royalty of \$75,000 payable in each of the remaining years of the initial term. As well, the master agreement provides for a percentage payment to Howard Johnson Company of all sub-licence fees and royalties received by the company.

2. MORTGAGES RECEIVABLE

	<u>1975</u>	<u>1974</u>
Mortgages receivable		
9% maturing May 15, 1975.		\$ 100,000
9.5% maturing September 1, 1975		100,000
9.5% maturing March 1, 1976 (note 3)	\$ 140,000	340,000
9.5% maturing June 1, 1982	239,000	242,000
11% maturing August 25, 1982	29,000	
9.5% maturing September 1, 1983	244,000	247,000
9.5% maturing March 1, 1984	333,000	337,000
	<u>985,000</u>	<u>1,366,000</u>
Less principal included in current assets.	14,000	210,000
	<u>\$ 971,000</u>	<u>\$1,156,000</u>

3. FUNDS HELD IN ESCROW

Funds received as final payment of certain mortgages receivable which arose from sale and leaseback agreements entered into by the company are held in escrow, bearing interest, as security for the last five months rental under related long-term lease agreements, expiring May 31, 1997 and August 31, 1998. Subsequent to the year end, \$140,000, included in mortgages receivable, was placed into escrow as security for the last five months rental under a long-term lease, expiring February 28, 1999.

These lease agreements contain renewal options at rates to be negotiated.

The 1974 comparative figures have been restated to reflect \$200,000 in mortgages receivable, which amount was previously included in current assets, because these funds were placed in escrow in 1975.

4. FIXED ASSETS

	1975			1974
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>
Buildings	\$ 6,091,000	\$ 247,000	\$ 5,844,000	\$ 5,902,000
Furniture and equipment	3,135,000	1,143,000	1,992,000	2,363,000
Vehicles.	17,000	3,000	14,000	
Leasehold improvements.	760,000	165,000	595,000	727,000
Cutlery, china, linens, etc.	339,000		339,000	357,000
	<u>\$10,342,000</u>	<u>\$ 1,558,000</u>	<u>\$ 8,784,000</u>	<u>\$ 9,349,000</u>

Loss on disposal of fixed assets represents principally the disposition of fixed assets on the closing of one restaurant subsequent to the year end and a restaurant transferred to a licensee during the year.

5. LICENCES

	<u>1975</u>	<u>1974</u>
Master licence.	\$187,000	\$201,000
Ice cream licence.	95,000	102,000
	<u>\$282,000</u>	<u>\$303,000</u>

Under the master licence the company has the exclusive right to operate and licence others to operate Howard Johnson's lodges and restaurants in Canada. The ice cream licence grants the company the exclusive right to manufacture and sell Howard Johnson's ice cream in Canada.

The licences expire on December 31, 1989, but provide for two additional ten year renewal periods on payment of stipulated renewal fees. The company is obligated to ensure that no less than 40 Howard Johnson's combination restaurants and motor lodges are operating by December 31, 1989 and that 9 are operating by December 31, 1980. At December 28, 1975 there were 7 in operation.

6. CHANGE IN ACCOUNTING PRACTICE

Effective December 30, 1974 the company adopted the practice of writing off in the year incurred certain expenses related to the opening of new motor lodges and restaurants, including long-term financing and lease arrangement costs. Accordingly at December 30, 1974 expenses of \$501,000 have been written off in the statement of income. As a result of this change in accounting practice loss for the year has been increased by \$327,000.

7. BANK ADVANCES

Bank advances are secured by a registered assignment of certain mortgages receivable and a general assignment of other book debts.

8. LONG-TERM LIABILITIES

	<u>1975</u>	<u>1974</u>
Orangerooft Canada Limited		
9-1/2% Convertible sinking fund debenture Series A, maturing 1985	\$3,000,000	\$3,000,000
9-3/4% First mortgage debenture, maturing 1978, payable \$475,000 annually, principal and interest	4,377,000	4,430,000

10-1/4% First mortgage debenture, maturing 1978, payable \$56,000 annually, principal and interest	496,000	
Due to Howard Johnson Company, non-interest bearing, payable \$13,000 annually 1977 to 1989.	167,000	
Principal amount of capitalized lease, bearing interest at approximately 11-1/2%, expiring April, 1979, requiring monthly blended payments of principal, interest and sales tax of \$7,000.	149,000	209,000
O.R. Restaurants Limited		
10-3/4% First mortgage bonds, Series A, maturing 1981, payable \$23,000 annually 1976 to 1980, \$25,000, 1981	140,000	160,000
11% First mortgage bonds, Series B, maturing 1981, payable \$41,000 annually, 1976 to 1981	246,000	287,000
	<u>8,575,000</u>	<u>8,086,000</u>
Less principal included in current liabilities	<u>489,000</u>	<u>174,000</u>
	<u>\$8,086,000</u>	<u>\$7,912,000</u>

The 9-1/2% convertible sinking fund debenture Series A, which is secured by a first floating charge on all the undertakings of the company calls for annual sinking fund instalments of \$300,000 to commence in 1976, and can be redeemed otherwise than out of sinking fund monies at decreasing premiums commencing in 1977. The debenture is convertible into Class B common shares of the company at \$6.00 per share prior to 1981 and thereafter at \$7.50 per share to maturity (note 9).

Under the terms of the Trust Indenture securing the Series A debenture, the company has agreed not to pay dividends on its common shares if the retained earnings are less than \$1,000,000 or if more than 50% of the Series A debenture is outstanding.

The first mortgage debentures are secured by both a fixed and a floating charge on all of the company's assets located at the Toronto Airport Hotel.

The 10-3/4% and 11% first mortgage bonds, Series A and Series B, are secured by the building on leased land and by a first floating charge on the other fixed assets of O.R. Restaurants Limited.

Long-term liability repayment requirements 1976 to 1980, are approximately as follows:

1976	\$ 489,000
1977	508,000
1978	5,144,000
1979	377,000
1980	377,000

9. CAPITAL STOCK

The Class A and Class B common shares have the following rights:

- The Class A shares are entitled to 10 votes per share; the Class B shares are entitled to 1 vote per share.
- Class A shares may be converted into Class B shares at any time on the basis of one Class B share of each Class A share. 1,400,000 Class B shares are reserved for issuance upon the conversion of Class A shares. If 90% of the Class A shares are converted into Class B shares, then at the company's option all the remaining Class A shares may, at any time and from time to time, be converted into Class B shares.
- In all other respects, the Class A and Class B shares have equal rights.

500,000 Class B common shares have been reserved for issuance upon conversion of the \$3,000,000 Series A debenture.

10. LONG-TERM LEASES

The company has entered into long-term leases on land and buildings for periods varying from five to thirty-five years. From the balance sheet date these leases provide for minimum annual rentals of approximately \$1,151,000 and aggregate minimum rentals over the remaining terms of the leases of approximately \$23,758,000.

The leases contain options to renew.

11. INCOME TAXES

Amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts, are approximately as follows:

Losses carried forward, deductible up to:

1976	\$ 404,000
1977	<u>370,000</u>
	774,000
Excess of undepreciated capital cost over net book value of depreciable fixed assets at December 28, 1975	2,193,000
Amounts expensed for accounting purposes in excess of amounts claimed for tax purposes	<u>159,000</u>
	<u>\$3,126,000</u>

12. COMPARATIVE FIGURES

Certain of the 1974 comparative figures have been reclassified to conform with the financial statement presentation adopted for 1975.

13. OTHER STATUTORY INFORMATION

During 1975 the company had 11 directors (including 4 retired directors) and during 1974 the company had 16 directors (including 6 retired directors). The aggregate remuneration of directors as directors was nil in 1975 and \$4,700 in 1974. The company had 4 officers during 1975 and 5 officers during 1974 (including 3 retired officers in 1974). The aggregate remuneration of officers as officers was \$86,000 in 1975 and \$92,000 in 1974. The company had 3 officers in 1975 who were also directors and 4 officers in 1974 who were also directors (including 2 retired officers in 1974).

14. ANTI-INFLATION LEGISLATION

The company and its subsidiaries are subject to the Anti-Inflation Act which provides, from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation. The provisions of this Act have had no effect on the company's operations for the year ended December 28, 1975.

15. CONTINGENT LIABILITY

The company has received indications from the owners of an undeveloped property now under lease to the company that actions for damages may be sought in connection with one of the company's sub-licensee agreements. The company has obtained certain legal opinions that such actions, if made, have no legal merit and can be successfully defended.

AUDITORS' REPORT

To the Shareholders of
Orangerooft Canada Limited

We have examined the consolidated balance sheet of Orangerooft Canada Limited and subsidiary companies as at December 28, 1975 and the consolidated statements of income, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 28, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles which, except for the change in accounting for deferred expenses (see note 6), have been applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Toronto, Canada
March 24, 1976

